

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 926 - SB 1174

February 22, 2017

SUMMARY OF BILL: Decreases, from 5.00 percent to 4.50 percent, the state sales tax rate on the retail sale of food and food ingredients.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$57,588,600

Decrease Local Revenue – Net Impact – \$2,018,800

General Assumptions:

- Based on sales tax collection data from the three most recent fiscal years (FY13-14, FY14-15, and FY15-16), state sales tax collections derived from the retail sale of food and food ingredients are estimated to be approximately seven percent of total state sales tax collections.
- The current Fiscal Review Committee estimate for total state sales tax collections in FY17-18 is \$8,940,000,000.
- Local governments are not held harmless from the loss of state-shared sales tax revenue under this bill.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of state sales tax revenue as state-shared sales tax revenue.
- Pursuant to Tenn. Code Ann. § 67-6-103(c)(2), revenue generated from 0.5 percent of the sales tax rate on the retail sale of food and food ingredients shall be deposited in the state General Fund and earmarked for education purposes.

Assumptions related to tax collections under current law:

- Under current law, state sales tax collections derived from the retail sale of food and food ingredients are estimated to be \$625,800,000 ($\$8,940,000,000 \times 7.0\%$) in FY17-18.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 4.1427 percent $[(4.5\% / 5.0\%) \times 4.603\%]$.
- Local revenue pursuant to the state-shared allocation is estimated to be \$25,925,017 ($\$625,800,000 \times 4.1427\%$) in FY17-18. Net state revenue is estimated to be

\$599,874,983 (\$625,800,000 - \$25,925,017). These numbers are assumed to remain constant in subsequent years under current law.

Assumptions related to tax collections under the proposed legislation:

- State sales tax collections derived from the retail sale of food and food ingredients are estimated to be \$563,220,000 $[(\$625,800,000 / 5.0\%) \times 4.5\%]$ in FY17-18.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 4.0916 percent $[(4.0\% / 4.5\%) \times 4.603\%]$.
- Local revenue pursuant to the state-shared allocation is estimated to be \$23,044,710 $(\$563,220,000 \times 4.0916\%)$ in FY17-18. Net state revenue is estimated to be \$540,175,290 $(\$563,220,000 - \$23,044,710)$. These numbers are assumed to remain constant in subsequent years under the provisions of this bill.
- The recurring decrease in state sales tax collections derived from the retail sales of food and food ingredients is estimated to be \$59,699,693 $(\$599,874,983 - \$540,175,290)$.
- The recurring decrease in local revenue pursuant to the state-shared allocation is estimated to be \$2,880,307 $(\$25,925,017 - \$23,044,710)$.

Assumptions related to tax savings and net impact of the proposed legislation:

- Fifty percent of tax savings will be spent in the economy on other non-food sales-taxable goods and services. Total tax savings are estimated to be \$62,580,000 $(\$59,699,693 + \$2,880,307)$.
- The current state sales tax rate levied on non-food sales-taxable goods and services is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617%.
- The net recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy on non-food sales-taxable goods and services is estimated to be \$2,111,077 $[(\$62,580,000 \times 50.0\% \times 7.0\%) - (\$62,580,000 \times 50.0\% \times 7.0\% \times 3.617\%)]$.
- The total recurring increase in local revenue as a result of 50 percent of tax savings being spent in the economy on non-food sales-taxable goods and services is estimated to be \$861,473 $[(\$62,580,000 \times 50.0\% \times 2.5\%) + (\$62,580,000 \times 50.0\% \times 7.0\% \times 3.617\%)]$.
- The net recurring decrease in state revenue as a result of this bill, beginning with FY17-18, is estimated to be \$57,588,616 $(\$59,699,693 - \$2,111,077)$.
- The net recurring decrease in local revenue as a result of this bill, beginning with FY17-18 is estimated to be \$2,018,834 $(\$2,880,307 - \$861,473)$.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in dark ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

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